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KEDI ECONOMIC SURVEY

June 1, 1987

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SOURCES:

U.S.Department of Commerce second estimate of 1987:1, National Income and Product data, May 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, May 1987.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Outlook for growth of the economy through the balance of this year is moderate--accelerating in 1988.

Prices

Look for moderate increases of consumer and producer prices this year year and in 1988 with no significant inflation.

Employment & Labor

In 1988 approximately 2.5 million jobs will be generated dropping the unemployment rate to 6% or slightly lower.

Housing

April starts of single-family housing advanced by only 2% after the March drop of 5.9%. Multi-family starts dropped as well.

Automobiles

End of May inventories of unsold care are expected to grow to 1.9 million units--82-85 days on hand compared to normal 60-65 days.

Budgets

The final outcome of the Federal budget for FY 1988 will be near the Gramm-Rudman target of $108 billion.

Income

The overall after-tax profits are expected to grow by more than 11 this year over last year, and by approximately 12% in 1988.

Money & Credit

A positive development is shown in the slowing down of money supply M1 and acceleration in growth of M2.

Interest Rates, Yields & Securities Prices

KEDI anticipates that the Federal Reserve will continue in the policy of low interest rates.

O.02 ASSUMPTIONS

		Last Update
1.	In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1988.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%.	August 1986
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.03 FORECAST HIGHLIGHTS

* Table O.00 on page 3 shows forecast data of selected indicators of the June 1987 KEDI forecast.
* In 1987 moderate growth is expected. It will accelerate in 1988.
* The upward trend will continue throughout 1989-1990.
* Forecast data for 1987-1990 do not point to recession or major downturn.
* In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in 1988.
* Federal budget deficits will keep declining in 1987 and the following fiscal years.
* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1985	1989	1990	1991
Gross national	bil. 82$	3585.2	4037.9	4134.8	4242.3
product, p. 5	% change	2.5	3.0	2.4	2.6
Index of indust.	1977=100	123.8	137.8	142.3	147.1
prod., p. 5	% change	1.0	3.1	3.2	3.4
Capacity	%	80.4	80.9	80.0	79.3
utiliz., p. 5	% change	-1.0	.1	-1.0	-.9
Unemployment	%	7.2	6.1	6.5	6.4
rate, p. 5	% change	-3.1	-1.2	1.1	-.9
Private housing	mil.units	1.7	1.8	1.8	1.9
starts, p. 5	% change	4.9	3.2	-2.4	3.5
Car sales,	mil.units	11.0	11.2	11.1	11.5
p. 5	% change	3.2	2.8	-.9	4.0
Implicit GNP	1982=100	111.5	126.8	131.4	136.2
price def.,p.11	% change	2.6	3.4	3.6	3.7
Consumer Price	1967=100	322.2	365.1	376.7	390.3
Index, p. 11	% change	1.9	3.6	3.2	3.6
Prod.Price Index	1967=100	293.7	327.5	342.2	355.2
(fin.goods),p.11	% change	-1.6	4.1	4.5	3.8
Federal Deficit	bil. $	-200.1	-131.6	-105.4	-74.2
p. 21	% change	15.1	-14.2	-19.9	-29.6
Personal Income	bil. $	3314.5	4260.8	4546.2	4887.2
p. 23	% change	5.1	6.9	6.7	7.5
Prime Rate	%	9.4	9.2	10.0	10.9
p. 27	% change	-11.6	7.3	9.1	8.6
Mortgage Rate	%	11.1	9.6	9.3	9.5
p. 27	% change	-11.7	5.9	-2.8	2.0
Currency+demand	bil. $	593.6	851.2	909.1	968.2
deposits , p. 25	% change	13.4	7.3	6.8	6.5
Commercial+ind.	bil. $	493.9	590.7	607.8	620.6
loans, p. 25	% change	5.3	3.2	2.9	2.1
Raw steel	mil.sh.tons	88.1	89.6	90.8	91.3
production	% change	-4.8	.3	.9	.4
Electric power	mil.kw-hr	2576	3229	3342.8	3499.6
production	% change	6.5	3.9	3.6	4.7
Bituminous coal	mil.sh.tons	873	930	973.3	984.1
production	% change	-.1	1.4	1.3	1.5
Crude oil	avg. daily bbl.	3279	2336	2371.7	2426.2
output	% change	.9	2.0	2.2	2.3
Retail sales	bil. $	1377.7	1763.6	1873.0	2004.1
p. 7	% change	6.2	6.8	6.2	7.0

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
1.11 REAL GROWTH

See Table 1.11
Page 5

1987 FORECAST DATA

Percent Change from May 1987 Forecast

+ .13%	Private Housing Starts
+ .09%	Capacity Util.
.00%	GNP
- .04%	Index Indus. Prod.
- 1.35%	Unemployment
- 2.64%	Autos

KEDI's forecast of the overall growth of the U.S. economy remains unchanged:

Balance of 1987: moderate growth
1988: acceleration
1989: slowing down
1990: resumption of growth
1991: continuing growth

NO RECESSION OR MAJOR DOWNTURN ARE PREDICETED.

Recently released data confirm this trend for the second half of this year:

* Unemployment rate was at 6.4% for both March and April.
* Factory orders up in March and April.
* Unfilled orders up in March and April.
* U.S. trade deficit down in March and April.
* Capital outlays of major U.S. corporations in 1987 will be up 10% over 1986.
* Federal budget deficit declining
* Interest rates stabilizing after the April jump.

Main weaknesses:

* Weak autos and housing will persist as anticipated for a long time.

Considering the positives and negatives, there will be moderate growth for the rest of this year.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1985*	3585.2	123.8	7.21	80.4	1.742	11.0
1986:1*	3655.9	125.0	7.06	80.0	1.990	10.7
2*	3661.4	124.4	7.16	79.6	1.905	10.7
3*	3686.4	125.0	6.90	79.7	1.744	13.2
4*	3696.1	125.9	6.83	79.6	1.672	10.8
YEAR	3674.9	125.1	6.99	79.6	1.828	11.3
% change from '85	2.5	1.0	-3.1	-1.0	4.9	3.2
1987:1	3735.9	126.8	6.67	80.1	1.822	10.0
2	3763.2	127.3	6.34	79.6	1.722	10.4
3	3796.9	128.4	6.25	79.8	1.655	10.9
4	3833.9	131.3	6.27	80.0	1.610	9.2
YEAR	3782.5	128.4	6.38	79.9	1.702	10.1
% change from '86	2.9	2.7	-8.7	.3	-6.9	-10.8
1988:1	3850.0	131.9	6.28	80.2	1.526	10.0
2	3875.1	133.0	6.17	80.4	1.799	10.7
3	3910.8	134.1	6.10	80.8	1.910	11.5
4	4045.2	135.8	6.04	81.7	1.865	11.2
YEAR	3920.3	133.7	6.15	80.8	1.775	10.8
% change from '87	3.6	4.1	-3.7	1.1	4.3	7.2

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987 FORECAST DATA

Percent Change from May 1987 Forecast

+	.24%	Pers. Con. Exp. Services
+	.13%	Retail Sales Nondurable
-	.06%	Retail Sales Total
-	.06%	Pers. Con. Exp. Nondurable
-	.38%	Retail Sales Durable
-	.72%	Pers. Con. Exp. Durable

Forecast of consumer spending remains unchanged:

* Slow spending in 1987, especially in motor vehicles and parts.
* Car sales will accelerate in 1988 to the 1986 levels along with strong sales of other consumer durables, specifically building materials, furniture, and fixtures.

Retail Sales Percent Changes from Preceeding Month:

	April	May	June
Gen. Mdse.	- .5	+ .3	+ .6
Bldg. Mat°l.	- .6	+ .1	+ 1.2
Furniture & Home furnish.	- 1.4	+ .0	+ 1.4
Auto sales	- 2.3	- 3.8	- 4.9
Apparel & accessories	+ .3	+ .4	+ .3
Gasoline stns.	+ 1.3	+ 1.5	+ 1.9
Food stores	+ .9	+ 1.1	+ 1.0

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.- Durables	Nondur-ables	Services	**------Retail Sales------* Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1985*	359.3	905.1	1336.1	1377.7	511.6	866.2
1986:1*	360.8	929.7	1415.5	1410.8	526.4	884.4
2*	373.9	928.4	1428.1	1445.6	532.1	913.5
3*	414.5	932.8	1452.4	1470.2	559.4	910.8
4*	403.1	940.1	1477.2	1516.9	560.3	935.5
YEAR	388.1	932.8	1443.3	1460.9	544.5	911.0
% change from '85	8.0	3.1	8.0	6.0	6.4	5.2
1987:1	384.6	961.5	1504.5	1504.1	554.1	950.0
2	394.0	966.1	1547.8	1513.7	558.8	954.9
3	406.0	976.5	1589.5	1530.1	575.1	955.0
4	404.3	983.1	1639.5	1581.2	588.2	993.0
YEAR	397.2	971.8	1570.3	1532.3	569.0	963.2
% change from '86	2.4	4.2	8.8	4.9	4.5	5.7
1988:1	409.5	998.0	1654.4	1626.0	608.4	1017.6
2	412.4	1016.1	1693.8	1640.2	617.8	1022.4
3	426.3	1025.7	1705.8	1656.1	627.1	1029.0
4	450.4	1038.2	1866.3	1683.1	634.6	1048.5
YEAR	424.6	1019.5	1730.1	1651.3	622.0	1029.4
% change from '87	6.9	4.9	10.2	7.8	9.3	6.9

1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

+ 1.42%	Net Exports
+ .81%	Gross Private Dom. Inv.
+ .08%	GNP
- .05%	Pers. Cons. Expend.
- .18%	State Local Purch.
- .46%	Federal Govt. Purch.

The second estimate of the Department of Commerce of 1987:1 GNP has not brought significant changes when compared to the first estimate, and have not affected KEDI's forecast.

Forecast data on real GNP for 1987 continue to present the 1987 picture of the U.S. economy:

* Slow consumer demand, especially for autos.
* Slow business capital formation, improving a bit in the second half of this year.
* Business inventories at high levels.
* Slowing down in housing starts.
* Improved balance of trade in real terms.

AND IN 1988:

* Consumer demand accelerating, increases car purchases.
* Stronger than in 1987 business capital outlays, especially in equipment.
* Declines in business inventories.
* Further improvement in foreign trade.
* Government purchases continue at low levels.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1985*	3585.2	2324.5	647.7	-108.2	323.6	397.6
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2*	3661.4	2408.4	664.7	-153.9	328.9	413.3
3*	3686.4	2448.0	651.3	-163.3	330.9	419.5
4*	3696.1	2445.8	629.0	-148.0	348.6	420.7
YEAR	3674.9	2418.7	657.2	-147.8	332.2	414.6
% chan e from '85	2.5	4.1	1.5	36.6	2.7	4.3
1987:1	3735.9	2438.9	678.9	-137.2	331.0	424.3
2	3763.2	2476.4	658.2	-134.5	336.6	426.5
3	3796.9	2496.7	655.6	-125.7	340.2	430.1
4	3833.9	2519.2	662.3	-122.3	342.3	432.4
YEAR	3782.5	2482.8	663.8	-129.9	337.5	428.3
% change from '86	2.9	2.7	1.0	-12.1	1.6	3.3
1988:1	3850.0	2430.0	667.3	-118.4	347.3	439.1
2	3875.1	2524.4	670.9	-112.1	350.0	441.9
3	3910.8	2550.7	671.8	-108.2	352.4	444.1
4	4045.2	2695.3	676.9	-129.1	354.0	448.1
YEAR	3920.3	2572.1	671.7	-117.0	350.1	443.3
% change from '87	3.6	3.6	1.2	-10.0	3.7	3.5

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

+	.26%	Consumer Price Index
+	.09%	Federal Govt. Purch.
+	.08%	GNP
+	.05%	Pers. Cons. Expend.
	.00%	State Local Purch.
-	.33%	Producer Price Index

LOOK FOR MODERATE INCREASES OF CONSUMER AND PRODUCER PRICES THIS YEAR AND IN 1988 WITH NO SIGNIFICANT PICK-UP IN INFLATION.

For the balance of 1987 and in 1988, the main components that will be pushing the price levels upwards are:

* Energy prices, mainly prices of gasoline expected to reach $1, and in international price of $20 per barrel are expected in 1988.

* Prices of services, especially medical, legal, transportation, amusement, and business services will continue pushing the retail price level upwards

* Major increases in prices of imported goods are NOT expected, but will continue to be modest. Foreign producers will try to hold down prices to maintain their market shares in the U.S.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1985*	322.2	293.7	111.5	111.5	109.4	116.0
1986:1*	327.3	290.8	113.5	113.5	111.0	118.8
2*	326.5	288.5	114.0	114.1	111.8	119.4
3*	328.9	287.9	115.0	115.1	111.6	120.3
4*	330.9	288.4	115.2	115.3	106.7	122.0
YEAR	328.4	288.9	114.4	114.2	110.3	120.1
% change from '85	1.9	-1.6	2.6	2.4	.8	3.6
1987:1	333.9	292.0	116.4	116.8	111.1	123.2
2	337.9	295.1	117.3	117.4	112.6	124.3
3	340.1	300.1	118.4	119.0	113.9	125.4
4	344.2	304.8	119.5	120.2	115.6	127.1
YEAR	339.0	298.0	117.9	118.4	113.3	125.0
% change from '86	3.2	3.1	3.0	3.7	2.7	4.1
1988:1	348.7	308.9	120.8	126.0	117.1	128.3
2	351.2	312.3	122.4	123.7	118.4	129.6
3	353.5	317.3	122.9	123.8	119.6	131.8
4	356.1	319.9	124.5	124.5	121.4	133.0
YEAR	352.4	314.6	122.7	124.5	119.1	130.7
% change from '87	3.9	5.6	4.0	5.2	5.1	4.5

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987 FORECAST DATA

Percent Change from May 1987 Forecast

+ 1.09%	Gross Private Dom. Inv.
+ .13%	GNP
+ .01%	Pers. Cons. Expend.
- .22%	Net Exports
- .22%	State Local Purch.
- .30%	Federal Govt. Purch.

FORECAST DATA ON GNP AND COMPONENTS FOR 1987 AND 1988 POINT TO HEALTHY GROWTH WITH ACCELERATION IN CONSUMER SPENDING, IMPROVEMENT IN NET EXPORTS, AND REGULAR INCREMENTS IN GOVERNMENT SPENDING.

The second estimate of GNP and related data for 1987:1 by the Department of Commerce remains essentially unchanged when compared to the first estimate. The main positive feature is foreign trade. The merchandise trade balance data show the start of the trend of gradual improvement:

* Exports increased by 12,9%
* Imports increased by only 2.9%
* The trade balance with key areas has improved.

Merchandise Trade Balance
(bil. $)

	3/87	2/97	3/86
Japan	- 4.95	- 5.07	- 5.50
Canada	- 1.47	- 1.89	- 2.30
W.Europe	- 2.55	- 1.89	- 2.70

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	3998.1	2619.1	661.1	-78.9	354.1	461.3
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2*	4174.0	2730.3	687.3	-104.5	367.7	493.1
3*	4240.7	2799.8	675.8	-108.9	369.3	504.7
4*	4258.7	2820.4	663.2	-110.2	372.1	513.2
YEAR	4205.1	2761.4	683.6	-104.3	366.2	497.9
% change from '85	5.2	5.4	3.4	32.2	3.4	7.9
1987:1	4348.4	2850.7	718.1	-111.9	369.2	522.2
2	4414.2	2907.9	703.2	-106.0	379.0	530.1
3	4495.5	2972.0	699.5	-102.8	387.5	539.3
4	4581.5	3026.9	705.3	-96.0	395.7	549.6
YEAR	4459.9	2939.4	706.5	-104.2	382.8	535.3
% change from '86	6.1	6.4	3.3	-.1	4.6	7.5
1988:1	4650.8	3061.9	708.9	-90.1	406.7	563.4
2	4743.1	3122.3	713.8	-80.1	414.4	572.7
3	4806.4	3157.8	719.6	-77.8	421.5	585.3
4	5036.3	3354.9	725.7	-70.1	429.8	596.0
YEAR	4808.2	3202.0	717.0	-79.5	418.1	579.3
% change from '87	7.8	8.9	1.5	-23.7	9.2	8.2

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987 FORECAST DATA

Percent Change from May 1987 Forecast	
.00%	Agri-culture
- .01%	Non-Agri.
- .01%	Popula-tion
- .01%	Total Employed
- .08%	Civilian Labor Force
- 1.35%	Unemploy-ment rate

IN 1988 APPROXIMATELY 2.5 MILLION JOBS WILL BE GENERATED DROPPING THE UNEMPLOYMENT RATE TO 6% OR SLIGHTLY BELOW.

The May unemployment rate is expected to remain at 6.3%, unchanged from April and will hover around 6.1-6.4% for the rest of this year.

The forecast data on employment show modest increases in goods-producing industries and major gains in service producing industries for the forecast period.

There will be stabilization and increases in all industries with no more declines in steel and steel related industries, farm machinery and equipment.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1985*	241.7	115.4	107.2	3.2	103.9	7.21
1986:1*	244.5	117.0	108.7	3.2	105.5	7.06
2*	245.9	117.7	109.3	3.2	106.1	7.16
3*	247.3	118.2	110.2	3.2	104.1	6.90
4*	249.8	118.6	110.5	3.1	107.4	6.83
YEAR	246.9	117.9	110.4	3.2	107.2	6.99
% change from '85	2.1	2.1	2.0	-.8	3.2	-3.09
1987:1	250.7	119.2	111.2	3.1	108.1	6.67
2	252.3	120.3	112.7	3.1	109.6	6.34
3	254.0	121.7	114.1	3.1	111.0	6.25
4	256.1	122.0	114.4	3.1	111.3	6.27
YEAR	253.3	120.8	113.1	3.1	110.0	6.38
% change from '86	2.6	2.5	2.7	-2.4	2.6	-8.66
1988:1	257.5	122.1	114.4	3.1	111.3	6.28
2	259.6	123.0	115.4	3.0	112.4	6.17
3	261.4	124.2	116.6	3.0	113.6	6.10
4	263.5	125.3	117.7	3.0	114.7	6.04
YEAR	260.5	123.7	116.0	3.1	112.9	6.15
% change from '87	2.9	2.4	2.4	0.0	2.7	-3.68

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987 FORECAST DATA

Percent Change from May 1987 Forecast

+	.13%	Single Family Housing Starts
-	.58%	1-Family unit price existing
-	.65%	1-Family unit price New
-	1.27%	Mobile Home Shipments
-	3.50%	Permits Issued
-	8.36%	Multiple Family Housing Starts

APRIL STARTS OF SINGLE-FAMILY HOUSING ADVANCED BY ONLY 2% AFTER THE MARCH DROP OF 5.9%. MULTI-FAMILY STARTS DROPPED IN APRIL BY -14.1% AFTER THE -2.2% DROP IN MARCH.

Permits authorized--the indicator of future housing activity dropped by -.7% in April. That points to a week performance for the rest of the year.

Forecast data show that mortgage rates peaked in past months and gradual declines are forecast for the rest of this year, and low levels in 1988 are predicted. However, the data show that these declines will not be a significant stimulus in improving the performance of housing.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home shipments	Permits authorized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1985*	1.072	.669	.284	1.735	101.0	90.6
1986:1*	1.257	.733	.258	1.839	106.3	94.4
2*	1.242	.663	.241	1.805	111.9	100.6
3*	1.142	.602	.237	1.678	114.7	98.8
4*	1.156	.545	.243	1.696	117.4	99.0
YEAR	1.199	.636	.245	1.754	112.6	98.2
% change from '85	11.9	-5.0	-13.8	1.1	11.5	8.4
1987:1	1.293	.529	.257	1.731	120.0	99.5
2	1.214	.508	.261	1.602	120.1	102.0
3	1.142	.513	.248	1.611	122.1	102.2
4	1.089	.521	.241	1.572	123.4	105.1
YEAR	1.184	.518	.252	1.629	121.4	102.2
% change from '86	-1.2	-18.6	2.9	-7.2	7.8	4.1
1988:1	1.002	.524	.247	1.565	127.0	107.6
2	1.211	.588	.261	1.694	129.4	109.4
3	1.292	.618	.289	1.801	132.0	111.7
4	1.259	.606	.295	1.785	135.8	114.8
YEAR	1.191	.584	.273	1.711	131.1	110.9
% change from '87	.5	12.8	8.4	5.0	7.9	8.5

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987 FORECAST DATA

Percent Change from May 1987 Forecast

+ 5.56%	Dealer Inventory
+ .89%	Imported Car Sales
- 2.64%	Total Car Sales
- 2.86%	Total Light Truck Sales
- 3.95%	Domestic Car Sales
- 6.09%	Shipments

END OF MAY INVENTORIES OF UNSOLD CARS ARE EXPECTED TO GROW TO 1.9 MILLION UNITS GIVING DEALERS 82-85 DAYS COMPARED TO NORMAL 60-65 DAYS ON HAND.

Recent data confirm the downward trend in production of cars for the remainder of this year.

Production plans of domestic car builders have been reduced for 1987:3, compared to the actual output in 1986:3.

GM	- 17.7%
Ford	- 5.4%
Chrysler	- 17.5%
VW	- 63.1%
Honda	+ 15.9%
Toyota	+ 452.0%
Nissan	+ 175.0%
Total	- 12.8%

Not including AMC

Labor talks between UAW and the automakers have started but KEDI does not anticipate a strike. Majority of economists predict 7.0-7.4 million car production this year, while KEDI's forecast calls for 7.2-7.3 million units.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1985*	11.0	8.2	2.8	1.3	8.4	3.7
1986:1*	10.7	7.9	2.8	1.9	7.7	3.4
2*	10.7	7.7	3.0	1.8	8.3	3.5
3*	13.2	9.7	3.5	1.3	11.0	3.6
4	10.8	7.0	3.0	1.4	8.7	3.3
YEAR	11.3	8.1	3.1	1.4	8.9	3.5
% change from '85	3.2	-1.5	9.8	7.7	6.3	-6.8
1987:1	10.0	7.4	2.6	1.8	7.8	3.3
2	10.4	7.7	2.7	1.9	7.2	3.4
3	10.9	7.9	3.0	1.8	7.0	3.6
4	9.2	6.2	3.0	1.9	7.3	3.3
YEAR	10.1	7.3	2.8	1.9	7.3	3.4
% change from '86	-10.8	-2.7	-8.1	35.7	-17.9	-1.4
1988:1	10.0	6.9	3.1	1.9	7.0	3.2
2	10.7	7.7	3.0	1.8	7.5	3.5
3	11.5	8.4	3.1	1.7	8.2	3.7
4	11.2	8.1	3.1	1.7	8.0	3.8
YEAR	10.8	7.8	3.1	1.7	7.7	3.5
% change from '87	7.2	-1.7	8.8	-10.5	4.8	4.4

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987 FORECAST DATA

Percent Change from May 1987 Forecast

+10.79%	Corp. Profit Tax Accrued
+ 8.30%	State Local Corp. Tax Accrued
+ 1.44%	Federal Income Tax
+ .33%	State Income Tax
- 3.25%	Federal Surplus/ Deficit
-14.61%	State Surplus/ Deficit

THE FINAL OUTCOME OF THE FEDERAL BUDGET FOR FY 1988 WILL BE NEAR THE GRAMM-RUDMAN TARGET OF $108 BILLION. IN APRIL THE HOUSE BUDGET COMMITTEE PROPOSED $132.5 BILLION AND THE SENATE $123.7 BILLION.

This is critically important in light of:

* Federal deficits are still largely financed by foreign investors, presently mainly Japanese and Western European investors. That increases the dependency of U.S. on foreigners. Calculations show that if the Gramm-Rudman targets are met, foreign investments in the foreign debt will be significantly reduced when compared to the House or Senate proposals.

* Meeting the Gramm-Rudman targets will generate the conditions for further reductions in interest rates. Financial markets will have more funds to finance the needs of the economy.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	350.8	67.7	-200.1	142.0	18.1	59.2
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2*	353.1	75.2	-238.1	151.7	18.1	59.0
3*	365.8	84.3	-197.4	153.1	20.1	64.0
4*	376.1	92.7	-189.2	158.9	21.9	59.4
YEAR	361.3	80.8	-206.6	152.7	19.4	63.1
% change from '85	3.0	19.4	3.2	7.6	7.2	6.6
1987:1	375.0	106.1	-174.4	158.1	23.8	51.1
2	394.3	108.4	-170.1	163.0	24.3	54.7
3	399.8	110.6	-167.4	167.9	24.8	58.2
4	401.2	114.5	-166.3	170.4	25.0	60.4
YEAR	392.6	109.9	-169.6	164.8	24.5	56.1
% change from '86	8.6	35.9	-17.9	7.9	26.2	-11.1
1988:1	407.2	116.3	-162.1	171.9	25.4	62.0
2	414.3	118.7	-158.3	174.2	26.7	62.9
3	419.8	119.8	-151.2	176.4	27.5	64.3
4	425.9	120.5	-142.1	179.1	28.0	65.8
YEAR	416.8	118.8	-153.4	175.4	26.9	63.8
% change from '87	6.2	8.1	-9.5	6.4	9.9	13.6

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

+ 5.02%	Corp. After Tax Profit
+ 2.51%	Personal Savings
+ .22%	Personal Income
+ .02%	Comp. of Employees
- .01%	Personal Disp. Income
- .28%	Average Weekly Earnings

THE OVERALL AFTER-TAX PROFITS ARE EXPECTED TO GROW BY MORE THAN 16% THIS YEAR OVER LAST YEAR, AND BY APPROXIMATELY 12% IN 1988 OVER 1987.

Forecast data for Personal Income, Personal Disposable Income and Components for 1987 and 1988 are commensurate with the growth of other indicators for that period. Do no expect declines or irregularities to take place.

Forecast data for income of U.S. businesses are optimistic with significant increases over 1986.

Forecast of increases in average earnings in manufacturing is modest for this year. Do not expect significant increases before next year.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1985*	3314.5	2828.0	2368.2	131.4	143.3	382.0
1986:1*	3444.3	2946.8	2461.5	135.2	145.6	391.2
2*	3489.3	2984.5	2486.9	138.0	153.1	393.9
3*	3498.8	2979.9	2507.4	135.9	84.1	393.7
4*	3527.9	2993.0	2540.7	144.2	74.2	397.9
YEAR	3490.1	2976.1	2499.1	138.3	114.2	394.2
% change from '85	5.3	5.2	5.5	5.3	-20.3	3.2
1987:1	3596.2	3053.1	2564.3	153.2	104.0	401.1
2	3677.1	3119.8	2610.2	159.6	109.7	402.6
3	3744.4	3176.7	2663.5	163.8	110.4	406.9
4	3816.1	3244.5	2720.7	169.5	112.6	409.2
YEAR	3708.5	3148.5	2639.7	161.5	109.2	404.9
% change from '86	6.3	5.8	5.6	16.8	-4.4	2.7
1988:1	3855.5	3276.4	2765.3	174.6	114.3	411.8
2	3926.7	3338.2	2794.1	178.4	116.5	414.5
3	3974.9	3378.7	2853.2	185.2	120.8	417.1
4	4185.8	3580.8	2891.5	187.4	125.1	422.6
YEAR	3985.7	3393.5	2826.0	181.4	119.2	416.5
% change from '87	7.5	7.8	7.1	12.3	9.2	2.9

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

+ 1.15%	Large Denom. Time Deposits
- .06%	Consumer Install. Credit
- .09%	Comm. & Indust. Loans at Banks
- .12%	Time Deposits
- .54%	Currency & Demand Deposits
- .69%	Mortg. at S & L Assns.

A POSITIVE DEVELOPMENT IS SHOWN IN THE SLOWING DOWN OF MONEY SUPPLY M1 AND ACCELERATION IN GROWTH OF M2. THIS IS EXPECTED THROUGH THE REST OF THIS YEAR AND IN 1988.

In the past four years the fast growth of M1 was necessary because of growing Federal deficits, and foreign trade imbalance. Forecast data show that the Federal deficit is declining, and will continue to decline along with the trade deficit. So, there is no necessity for a fast growth of M1.

The expected acceleration of M2 is in line with overall growth in the economy. In 1988, the economy will accelerate along with M2.

Forecast of credit aggregates show no irregularities with faster growth of Consumer Credit and mortgage loans in 1988 compared to 1987 due to increases in purchases of cars and other consumer durables in 1988; and regular increments in commercial and industrial loans.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a. **	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	593.6	2484.0	522.8	493.9	436.5	583.2
1986:1*	633.9	2581.3	550.3	502.1	448.5	574.7
2*	658.4	2646.3	551.8	508.0	447.5	565.1
3*	685.6	2716.1	571.3	511.4	448.5	557.1
4*	714.7	2775.5	577.8	517.1	446.3	553.6
YEAR	673.1	2679.8	577.8	517.1	446.3	553.6
% change from '85	13.4	7.9	10.5	5.3	2.2	-5.1
1987:1	732.2	2820.7	581.6	520.4	450.1	569.4
2	740.1	2889.4	586.9	525.0	448.9	570.3
3	750.2	2950.4	598.7	534.6	446.5	571.2
4	760.1	3006.2	615.0	548.0	440.6	574.1
YEAR	745.7	2916.7	615.0	548.0	440.6	575.1
% change from '86	10.8	8.8	6.4	6.0	-1.3	3.9
1988:1	772.1	3080.4	620.1	553.7	448.1	590.3
2	786.8	3139.5	630.4	558.0	449.9	604.2
3	796.0	3216.7	541.7	563.6	453.6	619.7
4	818.4	3296.5	662.3	571.4	457.3	630.5
YEAR	793.3	3183.3	662.3	572.4	457.3	630.5
% change from '87	6.4	9.1	7.7	4.5	3.8	9.6

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates, **Revised series

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987 FORECAST DATA

Percent Change from May 1987 Forecast

+ 1.90%	S & P's 500 Avg.
+ 1.79%	Conv. Mortg. Rate
+ .71%	Prime Rate
- .13%	20 yr. Govt. Bonds Yield
- .17%	Aaa Corp. Bond Rate
- 1.45%	Treas. Bills 3 mo. Yield

KEDI ANTICIPATES THAT THE FEDERAL RESERVE WILL CONTINUE IN THE POLICY OF LOW INTEREST RATES. THE APRIL INCREASES WERE THE MAJOR ADJUSTMENTS AND NO FURTHER SIGNIFICANT UPWARD MOVES WILL TAKE PLACE.

LONG TERM RATES: Forecast data show no further increases this year and for the most of next year. Interest rate differentials between the U.S. and the six major industrialized countries are wide enough NOW to keep attracting foreign capital to invest in the U.S.

SHORT TERM RATES: KEDI forecast calls for stabilization of most short-term rates for the rest of the year with some possible declines in rates on short-term Teasury securities.

BOND MARKET, in general, will continue improving in coming months. Expect strong performance of the stock market for the rest of this year and in 1988.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 500 Avg 1941-43 = 10
Unit	%	%	%	%	%	
Year & Qtr.						
1985*	7.48	9.43	11.12	11.32	10.88	186.84
1986:1*	7.01	9.37	10.22	9.74	9.01	221.72
2*	6.14	8.61	9.82	9.00	7.67	242.16
3*	5.52	7.85	9.82	8.81	7.38	241.15
4*	5.35	7.50	9.43	8.68	7.44	243.69
YEAR	6.00	8.33	9.82	9.06	7.88	237.18
% change from '85	-19.7	-11.6	-11.7	-20.0	-27.6	26.9
1987:1	5.36	8.50	9.15	8.78	7.56	276.40
2	5.61	8.50	9.89	8.94	7.86	290.20
3	5.72	8.54	10.12	9.02	7.90	301.24
4	5.70	8.70	10.01	9.00	7.92	309.00
YEAR	5.60	8.56	9.79	8.93	7.81	294.21
% change from '86	-6.8	2.7	-.3	-1.4	-.8	24.0
1988:1	5.52	8.65	9.94	8.92	7.94	314.65
2	5.43	8.59	8.83	8.75	8.02	314.16
3	5.74	8.50	8.53	8.67	8.06	315.47
4	5.79	8.50	8.95	8.69	7.93	320.60
YEAR	5.62	8.56	9.06	8.76	7.99	316.22
% change from '87	.4	.0	-7.5	-2.0	2.3	7.5

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Federal Government Expenditures has been selected for comparison. Actual number is in the Survey of Current Business, April 1987 issue, Table 1.1 (U.S. Dedpartment of Commerce, Washington, D.C., monthly). Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Federal Government Expenditures (bil.$)
Actual figure: 366.2

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy percent difference
Manufacturers Hanover Trust Co., p. 45	12/85	337.9	-6.7
UCLA Business Forecasting Project, p. 46	12/85	340.6	-7.0
The Equitable Life Assurance Society of the U.S., p. 48	12/4/85	354.2	-3.3
Research Seminar in Quantitative Economics, p. 49	12/12/85	342.2	-6.6
L.D. Reece, Cities Service Oil and Gas Corporation, p. 53	1/86	333.9	-8.8
Metropolitan Life Insurance. p. 55	1/1/86	393.2	+7.4
Standard & Poor's Corp., p. 58	1/16/86	325.1	-11.2
Armco, Inc., p. 59	1/22/86	317.1	-13.4
Shearson Lehman Bros., Inc., p. 61	1/23/86	319.4	-12.8
J. D. McAuley, Fordham Univ., p. 62	1/24/86	342.0	-6.4
Money Market Services, Inc., p. 64	1/27/86	375.5	+2.6
Georgia State Univ., p. 66	2/86	376.0	+2.7
KEDI, Inc., p. 67	2/1/86	367.8	+ .4

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly) **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employ-ment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36